

Video: Supply chain risk and disruption



PRESENTER: Joining me here on Insure TV to discuss supply chain risk and disruption, we have Justin Linney, Head of Risk Management Mid-Market at Aviva, and Will Scobie, Managing Director at Horizonscan, gents, thanks for being here. Justin, if I could start with you, if you could tell me a bit about your role and how long you've been at Aviva?

JUSTIN LINNEY: Yes so I've worked for Aviva for 31 years, or legacy companies, and I principally run the mid-market risk management team, supporting our clients through engagements in terms of site visits, helping them understand their risks, and how they can manage and mitigate against them.

PRESENTER: And Will?

WILL SCOBIE: Yes I'm a managing director of Horizonscan. I've been with the company for eight years, done lots of things during that time, supporting clients around the world with resilient solutions.

PRESENTER: And I guess it's a question for both of you really, but looking at supply chains more broadly, what is the state of play at the moment, what happened in '22, and how have we seen this materialise since this year, Justin, we'll start with you?

JUSTIN LINNEY: Yes supply chain issues have always been there. I think obviously probably the last three, four years of seeing significant change with the lasting effects of COVID, the Ukraine war, inflation and Brexit, and continued problems with trade deals. And it's put business resilience right at the heart of companies' mindsets in what they need to do. And I think the businesses that plan and look into their supply chains are more resilient going forward and often thrive.

PRESENTER: Will, thoughts?

WILL SCOBIE: Yes and one of the trends we're seeing from a lot of companies is they're looking to add redundancy back into their supply chains. You've had decades of people looking to make supply chains as efficient, as lean as possible, and now people are talking about how we can have more resilience, how can we have more redundancy, and a lot of companies looking to shorten their supply chains. Maybe even look for supplies closer to home. We're starting to hear phrases like reshoring, onshoring. I just heard one at a conference the other day friend shoring, which was a new one on me, but it's the trends that we're seeing now.

PRESENTER: And in terms of resilience, what does that really look like across the board?

WILL SCOBIE: I think the main thing people are looking for is more information. I think it's the fear of the unknown. So a lot of the companies we're talking about and to are having this driven maybe by directors in the company, concerned that they don't understand the risks. Maybe it's coming from insurers asking questions about the contingent BI risks. And I think there's a real push to get more and more information to understand what's going on. I think it's that lack of knowledge that uncertainty that's the real driver at the moment.

PRESENTER: And, Justin, looking at the Aviva risk insights report, 45% of companies reported an impact on their business due to supply chain disruption, did that figure surprise you?

JUSTIN LINNEY: No not at all, and when you look at the risk insight report a little bit further, 16% of companies are actually within that figure had a total supply chain failure. And probably to echo Will's point I think it is going back and helping customers understand to mitigate, you know, whether it be looking at duplication of supplies, end to end supply chains from whether it be local to global, a lot of companies know their suppliers, but do they know who supplies them. And I think that is the problem that really you need to understand that to fully understand your resilience model that will take you forward. But I think as well it's

how you can actually, with all these end to end life cycles getting longer and longer in terms of supply chains I think the key is actually understanding then the covers that are provided through the insurance, whether it be are they adequately insured in terms of indemnity periods and the exposures that they've got at risk.

PRESENTER: Do you think there's a knowledge gap then for people to understand?

JUSTIN LINNEY: I think there is a knowledge gap, but I think it is also generating awareness, for me. It's an education piece, and that's the way that we want to use the tools that we've got to support using Will and Horizonscan, and also using some of our material through our loss prevention standards, and the technical expertise and capability we've got at Aviva.

PRESENTER: And Will, where would Horizonscan come into this?

WILL SCOBIE: Well, the main thing we're looking to do is support clients in understanding the data they're getting, and what mitigations and support they can give their suppliers. Lots of organisations have implemented some of the most standard approaches to controlling risk in your supply chain. Things like making sure you don't have any single source supplies, you've got multiple supplies for each product or service line that you're reliant on, trying to get data from people, but then people get that data, and they don't know what that means and how to use that. That's where we provide support. And a good part of this is actually to understand your average supplier. One of the points we always talk to clients about is if you look at your suppliers on a spreadsheet, and you don't understand the profile of them, you're not really getting to the maturity of those suppliers on how you can support them.

So we work with a lot of clients who are in the supply chain for major supermarkets, major restaurant groups. And quite often they're SMEs, they're small businesses. They're mid-market clients of the support that Justin and his team work with. Quite often they just need a helping hand, they need advice and guidance, but I think too often people look at it as being a compliance issue, a governance issue, a problem, the weak link, rather than it necessarily being if we give them the tools, these people want to grow their businesses, they want to work with us.

PRESENTER: So almost a culture shift.

WILL SCOBIE: Yes, it's a culture shift. We as risk professionals, and this is the role of brokers here as well, is to maybe start to think of the challenges around supply chain, supplier themselves are both potentially the problem but also the solution. Because they are the people that if they change and improve their risk that actually helps the whole supply chain.

JUSTIN LINNEY: And probably just to echo Will's point as well, business continuity planning has always been seen as a piece of paper, and there has been that little bit of governance that supports that. But I think it's if you can actually delve into a business continuity plan, you've got increased suppliers for example that you can replicate, and it will actually make a business thrive, and they're going to actually reduce costs and improve productivity as well. So it actually has business benefits to customers as well going forward.

PRESENTER: A lot of the audience that'll be watching this are brokers themselves, how key are they to shake up this whole process?

JUSTIN LINNEY: Brokers are integral to, insurers have got the material and brokers have as well. But the role the broker plays in helping customers truly understand the risk that they're presented and some of the tools that are available through the insurance market of how they can support them and make their businesses thrive is key. And they are the people that carry that message for the clients.

PRESENTER: Will, have you got any examples or any stories?

WILL SCOBIE: Yes, there's a client that we've been working with, and sort of echoing Justin's point there around the importance of brokers, you know, we worked on a big project to review the supply chain for a major manufacturing client. And so much of this was driven by the insurance market and the insights from the broker around the increased costs around contingent BI insurance. The whole project focused on creating tools for suppliers. And what was the most interesting thing that came out for me was the links, the correlation between different data that people were gathering around supply chain. So we worked with their procurement risk team, and they gathered information around safety, around quality, around, governance and things like that. And what you find is there is a correlation between organisations that are good at one of these management functions, one of these processes, actually correlating and being good at other ones, because it's about leadership and process.

So, and this is a good insight for people when they're looking at their supply chain, if you've got somebody that on paper is good at helping their people, keeping them safe, so health and safety, odds are they're going to be good at quality. And they're good at other things because that's a leadership there. And again if you've got somebody that on paper they've got a good business continuity plan, but their safety record or their quality data is poor, that's where you could use the data to focus on that supplier and understand the risk more. Because the odds are the data is showing you that they're not as good as they say they are. So that's one of the insights we got from that project, and it was really interesting to see that correlation of data across different functions.

PRESENTER: Say me personally, so I'm looking down my supply chain, and I'm looking at these different tools and insights, what are the key areas I should be looking out for do you say, Justin?

JUSTIN LINNEY: I think there's various areas you can look through if you're looking at supply chain, the breadth and depth of your supply chain, you know, what are the supply chain effects from one supplier potentially from another, where that supplier might be sourcing it from; what's available locally, you know, is the ability to buy in a big supply of those stocks and keep it at another site to reduce the effects of loss of one premises to another; and diversification, looking at something different, an alternative product. There's all of these different areas that you can start to do, and again one other factor is probably mirroring sites, creating a duplicate site somewhere else, so if you lost one, you've got something to support and fulfilment of your goods to the customers.

PRESENTER: Interesting, and it'd be impossible I think to have this discussion without talking about COVID and the effects of that. Have we seen, well of course we've seen a real shift, but do you think it'll ever go back to the way it was?

JUSTIN LINNEY: I think positively from an Aviva point of view, clients have taken a lot of learnings from COVID, because they had to think on their feet. They had to diversify. They had to look at different ways to fulfil supplier chains and meet customer expectations. But I think there's a lasting effect and I think people are more resilient now. I think probably I would say 75% of businesses we're aware of using a BCI example actually put that into place and say they've got a better, they're better prepared for the future. But there's still a long way to go. I think are we prepared for another pandemic? I don't think so. And I think we'll still see some problems going forward both with supply chain and that business resilience overall.

PRESENTER: And, Will, Horizonscan must have been very busy during the pandemic.

WILL SCOBIE: Yes and I think this is, building on what Justin's just said, there's an opportunity here, because business leaders are talking about resilience. They are worried about resilience. The word of the year for 2022 was permacrisis, you know, we are in a permanent crisis. You go from the pandemic to supply chain issues with the war in Ukraine, now to high inflation. And businesses need to be more prepared. And so a lot of business leaders are talking about it, and this is the opportunity for underwriters, for brokers, for consultants, for risk managers in businesses to get their traction. My concern is that if we don't do that, those conversations are going to happen, and we're not going to be there. And a lot of what we talk about with risk and resilience is common sense. Oh, we're reliant on this one piece of machinery. Well, let's look at ways to not become so reliant on that. Or look at options if we lost that piece of machinery. But we as risk

professionals, resilience professionals have case studies, knowledge, examples that we can bring to the table. But I'm not certain that we're in the room at the moment. And that's why I think it's important to encourage brokers, underwriters, risk managers to push again and try and be part of those conversations.

PRESENTER: And I don't want to make the discussion about this too much but there's a real cost of living crisis in the UK, is there a danger that as this goes on, we see less importance being placed on these kind of schemes, these kinds of initiatives?

JUSTIN LINNEY: I think there's always a challenge when you start to look at cost of living, inflation etc. And it can impact risk management capability. But it demonstrates and practice has shown that if people invest in risk management, it actually makes things more efficient and they actually make longer-term cost savings. So I do think there are benefits in that as well. And I go back to Will's point. I think there is that education piece. The more they can educate with the tools that Horizonscan have got, the tools that Aviva and the capability that Aviva have got, we can certainly work closely with brokers, work closely with clients and help them on that journey.

PRESENTER: And I'm going to put you both on the spot here, and Justin, I'll start with you, what's your forecast looking forward, what do you think we can look out for this year and next and what's coming up?

JUSTIN LINNEY: I think we're still in the middle of economic crisis, a global event as I highlighted at the start of this. I think we've still got a journey to go there. But I think as Will said resilience is on everybody's lips at the moment. And I think resilience should have been on everyone's lips for a long time. I think this is an opportunity to build on that, and I think this is an opportunity to embed that and work through that for the future because that will truly help our clients in understanding the risk that they've got and impart some of the knowledge that we've got as an insurer and using Will and the team at Horizonscan a great opportunity to share that.

PRESENTER: Will, same to you.

WILL SCOBIE: Yes I think we as businesses need to think more of this as a permacrisis. So that word is really important because this is not just something that's going to be over, oh the war in Ukraine is over therefore energy prices and inflation will go back to normal. COVID's over, therefore health systems will return to normal and the stresses that are on them. I think what we're seeing, and this has been, nearly a decade of disruption, is that we're permanently going to be in a crisis. And organisations now need to build their businesses and understand the supply chains to be resilient. So things like being agile, being able to adapt, being able to recover, being able to respond, those words should become part of every businesses' discussion when they're looking at their business model. No longer is it a case that you can just carry on as normal and respond to events as they are, you need to pre-prepare, and that's where business continuity and good risk management becomes critical.

PRESENTER: And my final point really Will is just in this world of nearshoring, friendshoring, whatever we're calling it now, change the picture for you? How does Horizonscan position itself on this new kind of world?

WILL SCOBIE: And the good thing about this is that because businesses are interested in it, there's now lots more service providers, lots of innovation going on around this area - which is great because it means that businesses when they're looking for support have multiple service providers and companies to go for. Our sort of approach and the approach of Aviva is to really focus on that real world impact, and try and make sure we're supporting businesses. I think as supply chains change, and as I think they get hopefully less complicated, I think that allows businesses to understand them more and reduce that risk. But we're not there yet. We're not even close to really understanding that, and that's why these tools are really important, and why brokers, underwriters, risk managers, consultants have such a critical role to make sure we're part of

those conversations so we can bring those tools, those case studies, those knowledge that we built over time to the table.

PRESENTER: Justin, Will, that's a great place to leave it, thanks very much for coming in.

BOTH: Thank you.

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